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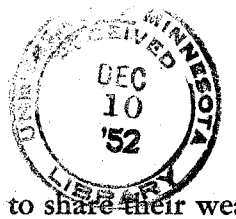
THE GREAT DOLLAR GAP HOAX

By GARET GARRETT



FROM TIME IMMEMORIAL a rich country has been a temptation. If its wealth had made it fat it could expect to be sacked by a lean neighbor or murdered by a coalition of killer tribes. Until a few centuries ago the world was that simple and history wearily records the rise and fall of mammon nations. Then man became, as he thought, a little civilized, and although the rule continued to be that those take who can, the nakedness of it began to be clothed in specious arguments, such as that all people are entitled to a good place in the sun, no matter who was there first, or that the natural resources of the earth must be equally accessible to all.

Owing to one change in the economic design of the world, and to one anti-historic circumstance, the redistribution of wealth between unequal nations now is much less simple. The economic change is that great wealth is no longer portable; it cannot be carted away like treasure. The anti-historic circumstance is that for once, and perhaps for the first time, the richest nations possess also the paramount military power. Forceful looting is now impossible. Meanwhile genus Homo at heart is neither less predatory nor less covetous than he ever was.

So now what are the lean and envious nations going to do? Well, they have done an amazing thing. They have invented a weapon sharper than the sword.

They have established in the world the emotional premise that the denizens of Americans — the one rich nation — are guilty rich; and upon this premise they have based an international doctrine — the doctrine, namely, that because they are so rich the Americans are obliged, both in morals and by necessity, to share their wealth with all the people in the world who have a lower standard of living.

By a kind of fatuous irony the American Government has accepted both the premise and the doctrine, and what it has called for twenty years its foreign policy has been so conditioned. It now has in training for career thousands of young bureaucratic almoners who shall be expert in the political art of giving. In the last five years such experts have disposed of roughly one tenth of the national wealth. A few weeks ago the Associated Press reported from Washington that "a secret green book of ideas on future aid to foreign countries is being compiled by officials of the Mutual Security Agency for the benefit of the next President, whoever he may be." In this way there has been implanted in the hearts of more than half the human race childlike and insatiable expectations.

WAIVING THAT PART of the doctrine which says that we Americans are morally obliged to do it, simply on the ground that we are too rich, what is the necessity? — for the saying is that we are obliged both in morals and by necessity. This is ugly. We are told that unless we do it, and go on doing it, we shall find ourselves with neither ally nor friend in the whole world; then we may perish in our stinking gold and be damned. Our beneficiaries, if we disappoint them, will either turn neutral or vanish behind the Iron Curtain. So they threaten us.

The European view is precisely stated by a Belgian economist who writes an Open Letter to Americans, saying: "You now hold two-thirds

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to two-fifths of the world's gold supply, to say nothing of silver. Each year you sell more than you buy to the tune of seven or eight billion dollars. Either you concentrate on yourselves and, after you absorb all that this world once had in the way of exchangeable wealth, you live on it like misers, or you integrate with the rest of the world and throw open your doors to European, Asian and African goods. If you refuse to buy because you fear competition — you are the most competitive country in the world — or if you refuse to lend — you are the richest country in the world — then you'll have to give."

This Belgian economist thinks he has bored a hole when he suggests, tauntingly, that the Americans are afraid of competition. He leaves out the fact that the European manufacturer now demanding that the American market shall be opened to his competitive goods is using capital, equipment and know-how with which the loving American Government provided him, out of taxes laid upon the American manufacturer. The countries of Europe do not make their own markets free to one anothr and never was it imagined that one of them should use its public funds to subsidize competition in another.

Out of all this evolves an economic jargon about balance of payment difficulties, the sterling bloc against the dollar, the imbalance of trade, the convertibility of currencies and the dollar gap — in which the layman is purposely lost. In the same confusion the elementary meaning of international trade disappears. International trade now is government business and the ideas that govern it are political, not economic.

THE DOLLAR GAP is the heartbreak theme of a recent report to the President by his Special Ambassador William H. Draper, Jr., on the political, military and economic developments in Europe.

"This phenomenon", he says, "which has its roots in the high excess of United States exports over its imports has persisted in varying degrees over a period of years."

Meaning simply that over a period of years Europe has been buying from the United States more goods than she can pay for, including coal, of which she has plenty if only she would dig it. Obviously, if she is never going to pay for it, then it is cheaper for England to buy American coal than to dig her own.

Mr. Draper goes on to say: "Unless a balance can be restored there is real danger of a deep and perhaps disastrous fissure between the economies of Europe and America. The lack of balance manifests itself in a perptual shortage of dollars needed to buy raw materials, machinery and other commodities in the Western Hempishere."

Mark you, on the one hand, a shortage of dollars to buy American machinery, whereas on the other hand Great Britain complains that on account of the American tariff she cannot sell British machinery in the American market. Why after all should we be exchanging machinery?

However, what can *we* do about it? That is the official question. How can *we* cure Europe's dollar famine? We can do one or all of the following three things, says Mr. Draper. We can —

(1) Throw the American market wide open to European goods, whether we want them or not, so that the Europeans may increase their exports to us, thereby tending to reduce the dollar gap;

(2) We can leave in Europe the proceeds from the sale of American goods instead of bringing the money home, regarding it vaguely as a kind of investment that may be repaid to us at some future time; or,

(3) We can continue for an indefinite time to make economic and military grants-in-aid out of the United States Treasury — that is, give them the dollars to spend for American goods.

Proposal number one, namely, to give Europe tariff-free access to the American market, plausible as it may sound, turns out to be intrinsically weak, for, says Mr. Draper: "The necessary adjustments in our own industry and our own

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markets can only be made equitably over a period of time. This fact, and the relatively greater productivity in the United States, make it very unlikely that the existing dollar gap can be closed by increased American imports alone."

The choice therefore lies between two and three — i.e., either when Europe has bought from us more goods than she can afford we must put what she owes us on the spike and charge it to our own public debt, or, more simply, we must go on giving her the dollars.

In any case, you see, the dollar gap is *our* responsibility.

SUCH IS THE logical development of the Keynesian doctrine that now is the first article in the theory of debtor economics, the doctrine, to wit, that surplus countries are responsible for the solvency and welfare of deficit countries. If a deficit country buys more than she can afford, that is really the fault of the surplus country. The deficit country needs the goods or she wouldn't have bought them, and as for the surplus country that sold the goods, it behooves her to provide the deficit country with the means of payment, else the whole structure of international trade will sink.

The political power of this doctrine lies in the fact that whereas deficit countries are many, there is only one great surplus country, and that country, as the world thinks, is already too rich.

When Mr. Draper refers to "necessary adjustments in our own industry and our own markets" that can be made equitably only over a period of time, he speaks the honeysuckle language. Throwing the American market open to competitive European goods would cause serious dislocations of American labor, American industry and American capital. Everybody knows that. He thinks the adjustments might be made equitably. What does he mean by that? Others, facing it more realistically, have proposed that where labor and industry are hurt, ameliorative payments might be made out of the public purse and charged to the American taxpayer. Save, oh save, the bureacratic mind!

Here you may lose your way if you permit yourself to be involved in a discussion of protection versus free trade. It is not that kind of question. If you ask, "Shall we level down our tariff walls and import more European goods?" many people will say yes very easily. If you ask, "Shall we share our American market with the Europeans?" many still will say yes, thinking of the persuastive British slogan, "trade net aid". But if you ask, "Shall we import Italy's unemployment?" you start an entirely different train of thought. We cannot afford to import anybody's unemployment. We could better afford to go on giving them the dollars.

The truth is that since government laid their hands on international trade — the American government like all the others — and since, parallel, they took control of the international money market, saying for example how many dollars the pound sterling is worth — since that began the ancient and mighty business of exchanging goods for mutual profit among the nations has become bankrupt, morally, politically and economically. Morally, because the controlling idea is to oblige one great surplus nation to share its wealth; politically, because when it begins to be used as a political weapon or as an instrument of policy it ceases to be trade for mutual profit and degenerates into a system of reprisals and blackmail (as when Mr. Draper, echoing the argument current in Europe, says that unless *we* solve Europe's chronic trade and financial problems "the long term consequences for the strength and solidarity of the free world could be damaging indeed"), and economically, because in fact it is breaking down. Briefly, the normal function of price has been suspended. In the whole world there is no way of knowing what anything is worth. And people pretend to wonder what is the matter with international trade.

EUROPE HAS ACQUIRED the dangerous and demoralizing habit of living beyond her means, consuming more than she produces — a habit so far supported by inflation and dollars. Since the end of World War II we have poured into her lap tangible wealth rising to fifty billions of dollars, and the dollar gap is still the ghost at the table.

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But this dollar gap is a hoax. The elements of it are few and simple.

When after the war the International Monetary Fund was created to make all currencies interchangeable, each member country was permitted to fix the value of its own currency in terms of the dollar; and naturally it was to each one's advantage to set the value as high as possible. Thus the buying power of European currencies in the American market was fictitiously high to begin with, or, to say it the other way around, American goods were too cheap in Europe. Add the fact that we were giving them dollars in multiples of billions and you can see what was bound to happen. It was too easy to buy American goods.

There is a natural solution. The only objection to it is that it is severe — so severe that every government will postpone it as long as it can and would perhaps sooner go bankrupt than embrace it.

The solution would be to release both international trade and foreign exchange from all restraints and controls whatever and let true values find themselves in the open market.

How would that work? As it always did before. Suppose then Great Britain is buying more American goods than she can afford. A time soon comes when they have to be paid for. To pay for them the British merchant had to buy dollars with pounds. An extreme demand for dollars will cause the dollar to rise and the pound to fall, with the result that it may take twice as many pounds to buy a given number of dollars and then the cost of American goods will rise to a point where people will stop buying more than they can afford.

In that case of course Great Britain would buy fewer American goods; and in the same case American exports to Great Britain would fall. But as to the first consequence, there is no way a country can go on forever buying more American goods than she can afford to buy, if it be only for the reason that the American taxpayer is not immortal; and as for the second, namely, that American exports to Europe would fall, the obvious fact is that when you have to give your customers the money with which to buy your goods it is not trade. Call it anything else. Call it insurance. Call it our debt to mankind. Call it charity. Only then your question begins to change. You stop talking about trade and you ask not how long Europe can go on buying more than she can pay for, but how long we can afford it.

At all events, the dollar gap hoax could be laid away in its wax clothes, along with many other great popular delusions — and that would be something.

The grimest pleasantry of all — and this from the British too — is that it becomes the duty of the United States now to assume Great Britain's Nineteenth Century role as the world's provider of capital. But Great Britain made it pay. The dividends and interest that came back to her from her overseas investments kept her rich for many years. Moreover, her private capitalists did it. The motive was profit. And they took good care not to build up competitive industry anywhere — only such enterprise abroad as would directly contribute to the well being of the British economy.

The role now assigned to Americans is that of blood donors.

The People's Pottage, a new book by Garet Garrett, well-known author and editor, will shortly appear under the imprint of the Caxton Printers, Caldwell, Idaho.

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FRANK C. HANIGHEN, *Editor* FRANK CHODOROV, *Associate Editor*

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Split Over the Cabinet: The incoming Eisenhower Administration has done more than lay an egg, politically speaking; it has provoked what today looks like a serious split in the new regime. The sharp reaction of Senator Taft to the appointment of Matthew Durkin as Secretary of Labor suggests that, unless the breach between Taft and Ike is healed, there may develop serious trouble in the legislative body.

But, regardless of the outraged feelings of the Taft wing of the GOP, there is a more fundamental situation involved, from the standpoint of practical politicians. As the latter see it, Eisenhower won largely because of the support from two groups: Catholics in the North and conservative Democrats in the South. The Catholics who voted for Eisenhower played the more decisive role since their voting weight in the big-city states of the North (with their large number of electoral votes) swung the election to the General.

Now, there is very little chance of incorporating this northern group into the GOP party organization in the foreseeable future, by patronage. There will not be sufficient jobs to go around in any case; and the old GOP faithful must be given priority. Hence, the only way the new voters for the GOP candidate can be given recognition is through Cabinet appointments.

The appointment of Durkin, a Catholic, to the Cabinet does not — as politicos put it — "fill the bill". On the contrary, it is an affront to the group in question. For Durkin voted for Stevenson and tried to elect him through his union influence. Those Catholics in the North who bolted the Democratic Party and voted for Ike can hardly feel that Durkin is representative of themselves. If Ike had taken Taft's recommendation for the post, Clarence Manion (former Dean of Notre Dame Law School), they would have been represented with the utmost political precision. For Manion, a Catholic, bolted the Democratic Party and was a leader in the Democrats for Eisenhower organization in the campaign. Unless this gross error is repaired, the unhappy memory may loom large in 1954 and 1956.

As for the South, Taft recommended that Byrd be made Secretary of the Treasury. Byrd was not even approached by the Eisenhower team. Worse than that, the South was "kissed off" (as one politico put it) with the appointment of Oveta Culp Hobby to the post of Federal Security Administrator. Southerners will not deem the appointment of a Southern woman (and to a subsidiary, not Cabinet, post) as sufficient. No less than a man of the rank of Governor Shivers of Texas (or Governor Kennon of Louisiana) would qualify as acceptable in Southern eyes. Actually, this slight is worse than no appointment at all.

This, in brief, is the political situation in the aftermath of "l'Affaire Durkin". The Taft forces are discontented, to say the least. They received Cabinet recognition in the case of only one cabinet secretary, Mr. Ezra Benson of Utah, designated to be Secretary of Agriculture. Additionally, the only pattern visible in the cabinet is that of a Dewey network. Taft people feel that Dewey, through Herbert Brownell (named Attorney General), is placing his men everywhere; and is building a basis for his nomination for the Presidency in 1956. There is much evidence to support this view.

But, there is much more than a revolt of the Taft wing involved in the unexpected crisis. As some political realists see it here, the plainly bad strategy shown in the handling of the two groups — Northern Catholics and Southern conservative Democrats — shows that there is no realization of the necessity of

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expanding the Republican party into a Conservative party. The GOP is a weak party. It desperately needs accretion of strength from new groups. The best potential source of such new blood is in the South. But, so long as the electoral system favors the big-city states in the North, the Catholic population offers the next best reservoir on which to draw.

In any case, the present crisis offers additional opportunities for Taft and his followers to awaken to the realities of the situation. Now is the time, say some observers, for Taft to take the initiative and offer the Southern conservative Democrats an equal place in the organization and hierarchy of the Congress. This would provide a constructive step towards the realignment of parties which is so long overdue.

Benson: The Taft wing's one consolation prize is Ezra Benson of Utah, named Secretary of Agriculture. But he is a good one, according to trusted observers here who know a good deal about him. He is described as a conservative in the farm field and one who would like to wean the farmers away from the subsidy state. He is on good terms with the Farm Bureau, the Grange and other conservative farm groups — but not with the left-wing Farmers Union which has for long shaped Democratic policy on agricultural matters. We are assured that Benson will work hard to bring about a thorough house-cleaning in the Department long associated with the names of Henry Wallace and of (in a special sense) Alger Hiss. He knows where "the bodies are buried" and is familiar with by-ways as well as highways in the vast organization.

Specifically, it is felt that he intends to do some purging in the enormously powerful division of the Department of Agriculture known as the Production and Marketing Administration (PMA). This part of the bureaucracy touches and exerts sway over every farmer in every county in the country. One story goes that the outgoing Secretary Brannan (famous for his plan of collectivizing American agriculture) entertained visions of mounting to the Presidency with the aid of PMA.

A Businessman Speaks: Charles M. White, President of Republic Steel Corporation, today strongly urged Southern business leaders (in a speech in Birmingham, Ala.) to spearhead a "realignment of political parties based on true Americanism". Addressing a regional meeting of the American Iron and Steel Institute, Mr. White said, "Let those who believe in sound, conservative, honest, economical government work together whether they come from the South or the North, the East or the West. Let those who believe in the Fair Deal and its socialistic aims also group together. Then the chips will be down and we will really know exactly where we stand." White also expressed the hope that the South will gain its rightful position in national government.

A Note on the Bureaucracy: Right now, many Fair Deal elements are seeking jobs in the Eisenhower setup and their friends are putting their names into circulation in connection with some very key positions. Thus, the Washington *Evening Star* reports in its civil service column that "Bernard Gladieux, former Commerce Department official and now an executive with the Ford Foundation", is mentioned for the chairmanship of the Civil Service Commission, which is supposed to screen the bureaucracy. Gladieux in Commerce was known as a "Wallace man" during the period when the former Vice President (under Roosevelt, third term) was the bell wether of Communist fellow-travellers throughout the country.

In the *Congressional Record*, February 8, 1951, there are some passages in which senators discuss the conviction of Remington of the Commerce Department, the defects of the Loyalty Board and generally how subversives appear in all sorts of important places. Senator Malone (Nevada) was speaking (page 1189): "If the Senator will yield further, I should like to ask whether he is familiar with the work of Mr. Gladieux who, I believe, was Assistant to the Secretary of Commerce, and whether he knows where Mr. Gladieux is now . . . Mr. Gladieux resigned, because there was a direct connection with Communists, apparently; at least we thought there was, and we are still working on it — and he is now with the Ford

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Foundation . . . " And on the next page, 1190, we found Senator Brewster speaking on the same subject: "We know Lee's record, we know Remington's record. He is a convicted felon. We know the record of Gladieux . . ."

Le May: It is not being said clearly and publicly, but many military observers here are emphasizing that the Soviet Union could launch a crippling attack with its strategic air force, carrying atom bombs, on our industrial centers — and could do it now. This is a sober military estimate of what the Soviet strength in "strategic air" constitutes in the year 1952.

Therefore, General Le May's speech in Washington on December 2 is worthy of note. Le May, commander of the U.S. strategic air force, said that the U.S. cannot hope to defeat the USSR in a war on land or at sea, but will have to rely on superior air power. "The West", said Le May, "cannot hope to match man for man the mass of manpower now available to the Kremlin." He added that Russia now has "20,000 front line combat planes in active units and 20,000 in reserve". Observers here say that we cannot now muster any such force.

Those who know Le May say that what he is driving at is this: only with the threat of a superior U.S. strategic bomber force (capable of bombing Russia) can the U.S. cause Moscow to restrain its aggressions.

Nullification: South Carolinians seem to be an incorrigible lot. They insist on being let alone. Even in the practice of what others may consider vice (but which to them is first class virtue), they want no interference.

For instance, the white majority in the state has for long considered it right and proper to have schools for Negro children and schools for white children. Some Negroes in and outside the state have looked upon this segregation as wicked, and in this attitude they have the support of many white people. These anti-segregationists are working hard to correct this wickedness of the South Carolinians. They do not rely on reason and suasion, but are taking resort to compulsion. That is, they have an anti-school-segregation case before the Supreme Court, and if that court renders a decision unfavorable to South Carolinian sentiment in the matter, the decision will have the backing of the Army and Navy of the United States Government.

Still, the South Carolinians think they are in the right, that the opposition is in the wrong. To prevent the "democratic" process from interfering with their opinion, they put up for referendum in the last election a proposal which, if passed, would enable the state legislature to abolish state-supported schools. This proposal was to abolish the article in the state constitution which reads: "that the general assembly shall provide for a liberal system of free public schools between the ages of six and twenty-one years". The vote on this amending proposal was: 187,345 for; 91,823 against.

The effect of this vote is that if the Supreme Court should decide — the decision is expected this month — against segregation, the general assembly of South Carolina may amend its constitution, which would in effect abolish state-financed schools. No doubt, the parents of South Carolina would provide education for their children; parents have been doing that for centuries. But, Washington will have nothing to say about how these schools shall be run.

Putting aside the merits or demerits of the segregation case, the decision of South Carolinians is important because it re-emphasizes the doctrine of home rule that is basic in American polity. We have an impish desire to see the Supreme Court decide against South Carolina, so that they can carry out their threat to insulate their school system from outside interference.

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